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G. Michael Crumling
Executive Director-
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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

August 16, 1996

Ex Parte Presentation

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

RE: Allocation of Costs Associated with Local Exchange Carrier Provision of Video Programming Services
CC Docket 96-112

Dear Mr. Caton:

On August 16, 1996, U S WEST, Inc. ("U S WEST") held a meeting at the Federal Communications Commission concerning the above-referenced proceeding. The meeting was attended on behalf of the FCC by Daniel Gonzalez, Legal Advisor to Commissioner Chong. In attendance at the meeting on behalf of U S WEST were Mike Crumling, Executive Director - Federal Regulatory and Bill Johnston, Executive Director - Markets and Interconnection. Attached hereto are two copies of a document that was left with the Mr. Gonzalez during the meeting.

During the meeting the U S WEST representatives discussed the attached documents and the impact of the fixed 50/50 cost allocation methodology vs. U S WEST's subscriber based 50/50 methodology on the viability of U S WEST's entry into the video market. We also discussed the disincentives associated with the imposition of an exogenous adjustment.

In accordance with Commission Rule 1.1206(a)(1), two copies of the document left with Mr. Gonzalez accompany this notice of presentation and are being filed with you for inclusion in the public record.

No. of Copies rec'd 0+1
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Acknowledgment and date of receipt of this letter are requested. A copy of this transmittal letter is provided for this purpose. Please contact me if you have questions.

Sincerely,

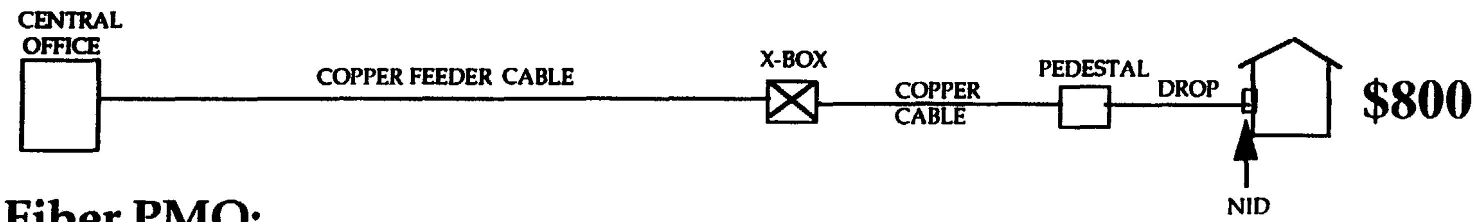
M C

Attachment

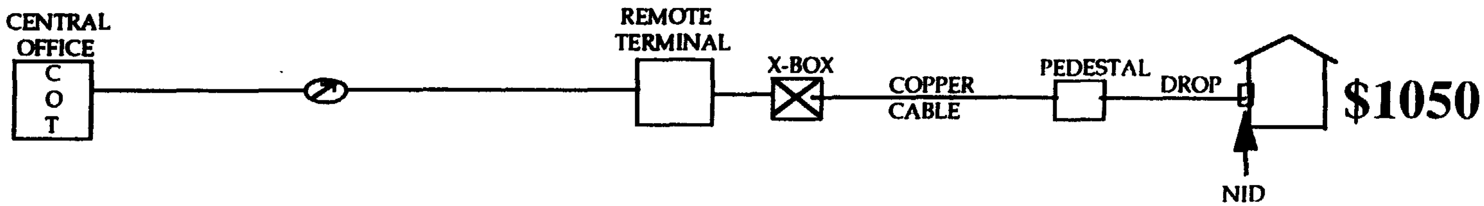
cc: Daniel Gonzalez

Broadband Upgradable vs. Present Method of Operation (PMO) Architecture Comparisons

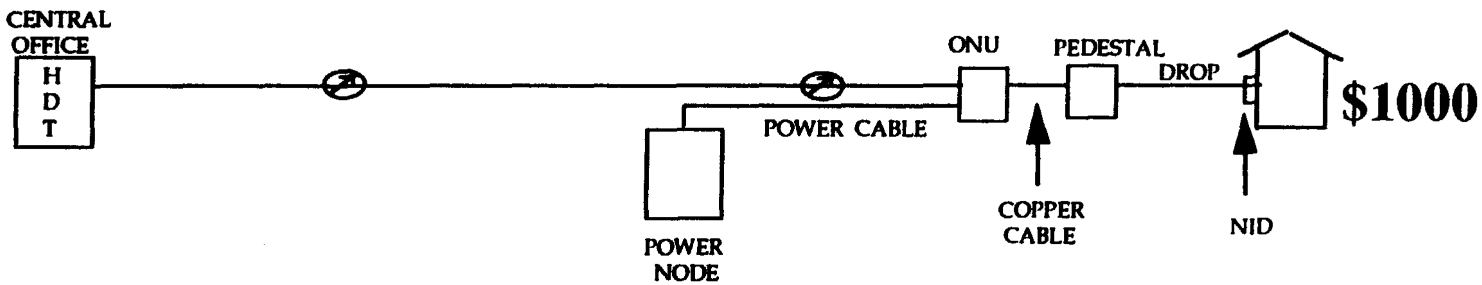
Copper PMO:



Fiber PMO:



Broadband Upgradable:



Broadband Upgradable Infrastructure vs. Present Method of Operation (PMO)

Hypothetical Cost Comparison

Cost per passing (buried new build and rehab):

PMO		**Broadband Upgradable**
Copper Telephony	Fiber Based Telephony	Telephony
$800	**$1050**	**$1000 total**
		-$400 direct telephony
		$600 common cost

Cost Allocation Methology Results

FCC Proposed Methodology:*

$600 Common cost per passing
x 100K Passings
$60M Total common cost
x 50% Fixed allocator
$30M Common cost allocated to video
÷ 30K Subscribers (30% Penetration)
$1000 Common cost per subscriber allocated to video
+ $465 Direct video cost per subscriber
$1465 Total video cost per subscriber

USW Proposed Methodology:*

$600 Common cost per passing
x 50% Fixed allocator
$300 Common cost per subscriber allocated to video
+ $465 Direct video cost per subscriber
$765 Total video cost per subscriber

$1330 Total stand alone (overbuild) video cost per subscriber*

* assumes 100,000 passings @ 30% penetration

Potential Effects of Cost Allocation

If FCC suggested cost allocation methodology is adopted:

- USW unable to economically utilize integrated infrastructure for video services
- No integrated infrastructure, no economies of scope, no allocation
- No benefit to regulated ratepayer

If USW proposed cost allocation methodology is adopted:

- USW utilizes integrated infrastructure for video services
- Economies of scope realized
- Regulated ratepayer benefits

NORMAL PRICE CAP OPERATION
($ M)

	Initial Rates	Apply Productivity Adjustment	Reduce Costs	OR	Increase Revenue thru new services
Revenue	100	98	98		100
Expense	90	90	88		90
Income	10	8	10		10

SUPPOSE NEW SERVICE IS NON-REGULATED

	Before Part 64 Allocation		After Part 64 Allocation		With Inappropriate Exogenous Adjustment	
	Reg	NonReg	Reg	NonReg	Reg	NonReg
Revenue	98	2	98	2	96	2
Expense	90	0	88.2	1.8	88.2	1.8
Income	8	2	9.8	0.2	7.8	0.2
	10		10		8	

Part 64 Cost → Over Allocation

	Reg	NonReg
	98	2
	87.2	2.8
	10.8	(0.8)
	10	

Exogenous → Adjustment

	Reg	NonReg
	95	2
	87.2	2.8
	7.8	(0.8)
	7	

Exogenous adjustment creates a disincentive to develop new non regulated services.

MC
8/16/96